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BEFORE THE PUBLIC UTILITIES COMMISSIONOF THE STATE OF CAL

Order Instituting Investigation to Consider Policies to Achieve the Commission's Conservation Objectives for Class A Water Utilities.	Investigation 07-01-022 (Filed January 11, 2007)
In the Matter of the Application of Golden State Water Company (U 133 E) for Authority to Implement Changes in Ratesetting Mechanisms and Reallocation of Rates. Application of California Water Service Company (U 60 W), a California Corporation, requesting an order from the California Public Utilities Commission Authorizing Applicant to Establish a Water Revenue Balancing Account, a Conservation Memorandum Account, and Implement Increasing Block Rates.	Application 06-09-006 (Filed September 6, 2006)
Application of California Water Service Company (U 60 W), a California Corporation, requesting an order from the California Public Utilities Commission Authorizing Applicant to Establish a Water Revenue Balancing Account, a Conservation Memorandum Account, and Implement Increasing Block Rates.	Application 06-10-026 (Filed October 23, 2006)
Application of Park Water Company (U 314 W) for Authority to Implement a Water Revenue Adjustment Mechanism, Increasing Block Rate Design and a Conservation Memorandum Account.	Application 06-11-009 (Filed November 20, 2006)
Application of Suburban Water Systems (U 339 W) for Authorization to Implement a Low Income Assistance Program, an Increasing Block Rate Design, and a Water Revenue Adjustment Mechanism.	Application 06-11-010 (Filed November 22, 2006)
Application of San Jose Water Company (U 168 W) for an Order Approving its Proposal to Implement the Objectives of the Water Action Plan.	Application 07-03-019 (Filed March 19, 2007)

REPLY COMMENTS OF PARK WATER COMPANY

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July 6, 2007

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REPLY COMMENTS OF PARK WATER COMPANY

In accordance with the schedule set forth in the Administrative Law Judge's Ruling Consolidating Application of San Jose Water Company, Modifying Schedule and Addressing Phase I Hearings, dated May 29, 2007, and pursuant to Rule 12.2 of the Commission's Rules of Practice and Procedure, Park Water Company (Park) hereby files its Reply Comments to the joint Comments of the National Consumer Law Center, the Latino Issues Forum and the Consumer Federation of California on the Motion of the Division of Ratepayer Advocates (DRA) and Park Water Company to Approve Settlement Agreement, and the Consumer Federation of California's individual Comments on Settlement Agreement Between DRA and Park Water Company.

I. INTRODUCTION

The joint comments (page 1) of National Consumer Law Center, Latino Issues Forum and Consumer Federation of California (the Joint Consumers) express general support of the settlement agreement (the Settlement) filed by Park and DRA. In their individually filed comments, however, the Consumer Federation of California (CFC) opposes both the WRAM and conservation rate design proposed in the Settlement. Park's reply comments assume that CFC's position is represented by its individually filed comments when contradicting the comments of the Joint Consumers. Park's reply comments are organized to differentiate between the comments of the Joint Consumers and CFC. Except where specifically noted, page references included in brackets refer to the comments of the Joint Consumers or the comments of CFC.

II. COMMENTS

A. REPLY TO THE COMMENTS OF THE JOINT CONSUMERS

The Rate-Related Conservation Measures Proposed by the Settlement Represent a Single Component of Park's Water Conservation Programs. Other Non-Rate Design Conservation Measures will be Implemented to Strengthen Park's Conservation Programs.

The Joint Consumers (page 1) state, "The Commission should evaluate the need for an increase in conservation programs and funding for such programs warranted by the adoption of a WRAM mechanism in Phase 2 of this proceeding." Park agrees with the Joint Consumer's underlying principal that implementation of a conservation rate design alone is insufficient to effectively promote conservation. Park believes that conservation will result from other non-rate design activities as well.

Park became a signatory to the California Urban Water Conservation Council's (CUWCC) Memorandum of Understanding Regarding Urban Water Conservation in California (MOU) in October of 2006 and a member of the CUWCC in December of 2006. The MOU includes 14 Best Management Practices (BMPs) to be implemented and reported by the signatories of the MOU. Rate design is 1 of the 14 BMPs. As a signatory to the MOU, Park will be required to implement all of the BMP's or demonstrate at each reporting that a BMP is not cost effective. Park believes that its membership in the CUWCC will result in greater implementation of the BMPs.

In the Water Action Plan (WAP), the Commission has identified several action items to advance the objective of "Strengthen Water Conservation Programs to a Level Comparable to those of Energy Utilities." Item No. 4 "Encourage increasing conservation and efficiency rate designs (such as increasing block rates) where feasible to promote greater conservation." is 1 of 8 actions to advance this objective. The Scoping Memo and subsequent rulings issued for this proceeding have stated that the Commission will address the non-rate design conservation measures of Park in Phase 2.

Monitoring and Data Collection is Necessary to Assess the Impact of the Conservation Rate Design on Customers.

Park agrees with the Joint Consumers on the necessity for record keeping and rate design data collection to assess the impact of the conservation rate design on all customers including low-income customers. Park has reviewed the list of data requested by the Joint Consumers (page 3) and agrees with many of the proposals for data to be collected, however, is unsure about some of the data. Some of the data is readily available while other data will require additional time and effort to collect and is more costly to prepare. Park is therefore unsure of the cost benefit of some of the proposed monitoring and data collection efforts. Park will continue to work with DRA and the Joint Consumers and comply with the Commission guidelines for monitoring and data collection established by Phase 2.

<u>Customer Education and Outreach is an Important Aspect of Park's Conservation Programs.</u>

The Joint Consumers state (page 5), "Since Park is making a dramatic change to its rate structure, there needs to be a thoughtful and robust consumer education effort that begins before the first new bill is sent to its customers." Park concurs with the Joint Consumers belief that a strong customer education program should be implemented. Park is currently evaluating the recommendations it received from correspondence with Disability Rights Advocates to enhance the customer education and outreach program.

B. REPLY TO THE COMMENTS OF THE CONSUMER FEDERATION OF CALIFORNIA

In their individually filed comments, CFC expresses its opposition to the WRAM and the conservation rate designs proposed in the Settlement. Park's reply comments are organized to address these subjects separately.

REPLY TO COMMENTS ON WRAM

<u>"Experimental" Rate Design Requirement Has No Basis In Commission Policy.</u>

CFC (page 2) states, "Only if Park Water were to propose rates more carefully designed to address current usage patterns in each district… <u>could the rates be deemed 'experimental' so as to justify implementation of a WRAM, like the one authorized in the Cal Am-Monterey case</u>." (Emphasis added). This statement is erroneous because it is based on a faulty premise. There is no basis for CFC's assertion that the WRAM mechanism authorized by the Commission for Cal-AM's Monterey district was justified by the "experimental" nature of the rate design or that an "experimental" rate design was a requirement for the authorization of the WRAM. As evidence of its belief, CFC provides the following quote from the Commission's decision in that case:

> "<u>The proposed experiment</u> is conceptually very attractive. It potentially harmonizes the goals of (1) encouraging water conservation through improved price signals, (2) giving customers increased control over the level of their water bills, and (3) providing rate relief to customers on low fixed incomes, while (4) assuring Cal-Am of reasonable revenue stability." (Emphasis added).

There is nothing in the above quote that suggests that an "experimental" rate design was required to establish a WRAM. The "proposed experiment" refers to both the establishment of the WRAM and the conservation rate design. Items 1, 2 and 3 are items specific to the conservation rate design while item 4 refers to the WRAM. The WRAM and conservation rate design proposed by the Settlement meet the above criteria established by the Commission for Cal-Am's Monterey district.

The Commission discussed the basis for the establishment of WRAM mechanism in its Water Action Plan (WAP) (page 9) and there is no mention of a requirement for an experimental rate design. In its discussion of financial disincentives to water conservation the Commission states:

> "Because water utilities recover their costs through sales there is a disincentive associated with demand side management: a successful campaign to reduce water use leads to less revenue and less profit. <u>The Commission will consider de-coupling water utility sales from earnings in order to eliminate current disincentives associated with conservation</u>." (Emphasis added.)

There is no discussion of experimental rate design in the above reference or anywhere in the WAP. The WRAM mechanism proposed in the Settlement would decouple water sales from revenues and therefore eliminate the disincentives from further implementation of conservation programs.

The Commission has previously ordered Park to file an application for a WRAM. D.06-08-015 (A.06-01-004) dated August 24, 2006, ordered Park to file an application for a WRAM within 90 days. D.06-08-015 states (pages 10-11), "The Commission is committed to addressing the Water Action Plan's objectives on a timely basis. We therefore direct Park to file its WRAM application within 90 days."

CFC's opposition to the establishment of WRAM proposed by the Settlement is misguided. Its primary argument is based on the flawed premise that a WRAM must include an experimental rate design and its opinion that the rate design in the Settlement is not sufficiently experimental. Furthermore, the Commission has previously discussed the necessity for a decoupling mechanism and previously ordered Park to file for an application for a WRAM. The issue is not whether or not a WRAM will be implemented, but how the mechanism should be designed.

<u>**The Proposed WRAM will Track all Actual Savings in Production.**</u>

CFC states (page 8), "The WRAM adjustment would be made regardless of the actual value of savings Park Water, may achieve through careful water supply management, and would discourage efficient management <u>by assuming production cost savings will remain at projected level</u>." (Emphasis added). This statement is false. The savings tracked by the Modified Production Cost Balancing Account in conjunction with the WRAM are real world actual savings and not hypothetical savings as suggested by CFC. Under the WRAM and MCBA mechanisms proposed by the Settlement, all real savings associated with conservation will be refunded back to customers. CFC's comments appear to be directed at the WRAM model originally proposed in Park's application as opposed to the WRAM proposed by the Settlement.

CFC's Reference to a Rate Adjustment Mechanism Used by Electric Utilities is Unrelated to the WRAM Proposed in the Settlement.

CFC believes that the rationale for a rate adjustment mechanism does not exist for Park in the same manner that it exists for energy utilities. To support this belief CFC (page 8) references a Commission Decision (D.04-07-022, page 275) for Southern California Edison (SCE) which states,

> "The rationale for approving non-test year revenue requirement adjustments is greater in this GRC than we have encountered in recent proceedings where we denied such mechanisms…SCE's financial condition was devastated by the events of 200 and 2001, and it only narrowly avoided bankruptcy…This weighs strongly in favor of adopting a revenue requirement adjustment mechanism for this GRC cycle for both 2004 and 2005." (Emphasis Added).

This discussion has absolutely nothing to do with the WRAM mechanism proposed in the Settlement or the Electric Revenue Adjustment Mechanism (ERAM) instituted for energy utilities in the early 80's. The rate adjustment mechanism referenced by CFC is a reference to the non-test year revenue requirement adjustment and is related to post test year ratemaking. In D.04-07-022, the Commission authorized SCE a mechanism to adjust rates for additional expenses and capital related costs incurred beyond its test year, in this case test year 2003, but prior to its next scheduled GRC application for test year 2006 apparently as a modification to the performance based ratemaking treatment previously in use for SCE. In some aspects, this post test year ratemaking mechanism is analogous to the Escalation Year methodology currently used by water utilities to establish rates for years two and three of the GRC cycle. The escalation year methodology allows water utilities to adjust the Commission authorized test year expenses to account for the impacts of inflation and the customer growth adopted by the Commission.

CFC's use of D.04-07-022 is not germane to the WRAM proposed by the Settlement. CFC's contention is once again unsupportable from the source provided in its comments. CFC's comments reveal a lack of familiarity with the ratemaking mechanisms in place for the energy and water utilities regulated by the Commission.

<u>CFC's Comparison of the Proposed WRAM to Non-Regulated Business does not provide any Meaningful Information.</u>

CFC (page 9) compares the WRAM mechanism proposed by Park to a grocery store marking up its prices retroactively and charging customers subsequently for its failure to initially charge high enough prices. This analogy is erroneous for several reasons. Unlike the grocery store, Park does not have the ability to set the rates charged to its customers. Park's rates are determined by the Commission based on cost of service ratemaking principals. The Commission's determination of the cost of service for water utilities is expressed in the form of a future test year. In addition, Park is being required by the Commission to ask its customers to use less of its product and to reduce its revenue. Grocery stores do not discourage their customers to permanently reduce the use of their products. Contrary to Park, the grocery store can take the following actions: (1) set the price of its product, (2) change the price of its product at any time and (3) is free to promote the increased use of the product. For these reasons, CFC's grocery store model should not be relied upon as an appropriate analogy for the WRAM proposal in the Settlement.

<u>The Commission has Recognized the Existence of Financial Disincentives to Water Utilities Associated with Conservation.</u>

Based on its grocery store analogy, CFC (page 9) states, "In effect, Park Water's WRAM removes any incentive for Park Water to tighten its belt when circumstances develop calling for increased efficiency." This statement again ignores the basic differences between regulated and non-regulated businesses. A non-regulated business, because it is not subject to regulatory constraints and can set its own prices and control its own production, is free to make whatever return it can in the competitive market and is expected to suffer the bad times since they have the opportunity to make very large returns in the good times. Park's rates are set by the Commission, based on the adopted customers and sales, at a level such as to cover Park's reasonably incurred expenses and capital costs and provide an opportunity to earn a reasonable return. The Commission, through tri-annual rate cases and earnings tests on escalation –year increases, constrains Park's ability to earn high returns when market conditions would allow. The Commission sets Park's return based on market data from regulated companies, at a lower level than non-regulated companies, because Park is not expected to face the same risks as non-regulated companies. The expectation that Park, when asked to pursue programs and rate designs specifically designed to reduce its sales below those which were assumed to generate the revenues necessary to cover its reasonable costs and provide its authorized return, a course of action financially equivalent to cutting its own throat, should simply tighten its belt is unreasonable and shows a lack of understanding of the regulatory compact.

The Commission has already recognized that water companies have a financial disincentive to engage and pursue conservation activities. The WAP (Water Action Plan, page 9) states,

> "Because water utilities recover their costs through sales, there is a disincentive associated with demand side management; a successful campaign to reduce water use leads to less revenue and less profit. The commission will consider de-coupling water utility sales from earnings in order to eliminate current disincentives associated with conservation.

CFC's Opposition to WRAM Fails to Consider Fundamental Differences Between Regulated Investor Owned Utilities and Cities/Municipal Water Districts.

CFC is critical of the rate design proposed by the Settlement and provides numerous examples of rate structures of other localities for comparison (page 12). All the examples are for municipal or districts water providers. CFC's attempt to compare the rate design proposed by the Settlement to the existing rates of municipal or district utilities (Municipals) is misguided given the fundamental differences that exist between regulated water utilities and municipal water districts and is inconsistent with its position on WRAM.

Unlike regulated utilities such as Park, Municipals are not constrained by cost of service ratemaking. Municipals set their own rates and have the ability to charge rates in excess of their revenue requirement. Municipals are not constrained by the prohibition to retroactive ratemaking. Municipals may charge rates to recover past losses and expenditures. Municipals have the ability to borrow money from general funds or reserves which may be funded through additional rate charges such as connection fees or property tax assessments and repay the borrowings from later rate increases or tax assessments.

Because of their ability to retroactively make up revenue shortfalls Municipals effectively have a WRAM in place and one which can generate greater revenue protection than that proposed in the settlement. CFC's contention that Park should not be allowed a WRAM while it points to other entities that effectively have that ability is inconsistent.

The Decision Rendered by the Commission in the Risk OII does not Preclude the Establishment of a WRAM as Proposed in the Settlement.

CFC (page 10) argues that the Commission should once again reject a WRAM for water utilities as it did in the Risk OII decision (D. 94-0-033) for the same reasons. CFC's argument would be more persuasive if circumstances were the same now as they were in 1994 when this decision was issued. In 1994, the drought was declared over by the Governor of California and the Commission terminated the conservation memorandum accounts (a mechanism that was essentially a WRAM but that was a memorandum account rather than a balancing account).

The Commission, in its discussion of the lack of need for a WRAM stated (D. 94-06-033, page 41) "But most Class A water companies today are earning at or close to forecasted sales levels, and econometric forecasting (discussed later in this decision) holds the promise of even more accurate predictions since it can include factors like residual conservation." Water utilities are now subject to rate case plan that is significantly different from the rate case plan in effect during the Risk OII proceeding. One of the major differences between the current rate case plan and the rate case plan in effect during the 90's is the Econometric Sales Forecasting model as described in the Risk OII decision (D.94-06-033, page 63). Unlike the current sales forecast methodology, the Econometric method was a more robust model that was capable of accounting for the impacts of price elasticity and conservation. The current rate case plan uses a simpler model to forecast sales, the New Committee Method. The New Committee Method uses only variables for temperature and rainfall and does not take into consideration the impacts of conservation. Absent the establishment of a WRAM mechanism, Park would be at risk for the loss in water sales resulting from water conservation programs and a conservation rate design.

While the Risk OII decision did not adopt a "W-RAM" for water utilities, it did not rule out the possibility of developing a similar mechanism in the future. The decision states (page 10),

> "Although we reject in this decision the water utilities' request to create their own ERAM-type of balancing account (the W-RAM), we will not rule out the possibility of developing some limited form of W-Ram mechanism that ensures that water utilities have the proper incentives to engage in water conservation activities."

The Commission stated in D.94-06-033 (page 41-42) that there was no immediate need for a WRAM stating "Moreover, the anticipated shortage of water supply that drives the ERAM recommendation is speculative to the extent that it assumes that nothing will be done about California's chronic water shortage, that no new sources of water will be developed, and that no political steps will be taken to adjust allocations between urban and agricultural users." We are now at a point, 13 years later, where the water shortage problem has not been solved, the new sources of water have not been developed and political adjustments have not occurred, at least not to the extent necessary to solve the problem. Water companies are now being asked to be a part of the solution to the State's water problem and, since water is energy intensive, the state's energy problem and should be authorized a WRAM so they can do so without financial harm.

CFC's reliance on the Risk OII decision issued as California ended its last drought is misguided because the circumstances have changed and the language of the Commission in that decision, applied to the current circumstances, supports the adoption of a WRAM.

CFC's Arguments Regarding the Effect of a WRAM on Park's Risk Do Not Provide a Basis for Rejection.

CFC asserts that a WRAM will eliminate all business risk and necessarily affect the rate of return on equity to which Park would otherwise be entitled (page 9). CFC continues: "In order to determine what return on equity was necessary to adequately compensate Park Water's investors, one would have to find an enterprise with correspondent risks, i.e., an enterprise which does not have to absorb costs associated with mis-pricing its service." These comments do not provide a basis for rejecting the WRAM included in the settlement for two reasons: 1) the issue of ROE adjustment is scheduled for Phase 1B pursuant to the schedule contained in the Administrative Law Judge's Ruling dated May 29, 2007 and any adjustment to ROE necessary to account for a reduction in Park's risk due to WRAM, a position with which Park strongly disagrees, can be dealt with in Phase 1B; and 2) CFC's statements are nonsensical and incorrect.

CFC's comment about the return appropriate for an enterprise which miss-prices its service makes no sense in this context because, as explained previously, Park is not allowed to set the price for its service. CFC's assertion that a WRAM will eliminate all business risk is simply incorrect. The WRAM only covers the portion of revenue generated by commodity rates. The revenues from service charges are still at risk of customer and meter-size estimates. Park's net-revenues are further at risk because the majority of Park's expenses are subject to estimating error as are the capital expenditures. The portion of the net revenues available for return on equity is at further risk due to estimates of Park's debt costs. There is further risk due to the potential for disallowance and the policy of the Commission that certain types of expenses are not recoverable. CFC's comments show either a tendency towards hyperbole or a lack of understanding of the relationships between regulatory mechanisms and risk.

REPLY TO COMMENTS ON CONSERVATION RATES

<u>CFC's Contention that the Proposed Rate Design is Too Conservative is not Shared by Park and the Other Intervenors.</u>

CFC asserts that the conservation rate design proposed for Park is too conservative and will not send a price signal to customers to conserve water. This view is not shared by the other ratepayer advocacy groups who have intervened into this proceeding. The Joint Consumers (page 5) describe the settlement's proposed rate design as "a dramatic change to ts rate structure". The City of Norwalk intervened in the proceeding to represent its residents. Approximately 1/3 of all Park's customers reside within the city limits of Norwalk.

In its petition for intervenor status, the City of Norwalk stated its concern over the impact of the proposed rate design on the residents of Norwalk. Similarly, the Joint Consumers state (page 4), "NCLF, LIF and CFC appreciate the parties' efforts to shield residential consumers from rate shock in the design of the inverted block rates."

The Commission is similarly concerned with the impacts that proposed conservation rate designs will have on low-income customers (Scoping Memo dated March 8, 207, page 3). Park shares this concern with the Commission. Park's service area includes the Cities of Compton and Lynwood which have been designated by the State of California as disadvantage communities. Using data from the 2000 census, Park estimated a 32.3% eligibility rate for its low income assistance program. By setting the tiers at appropriate levels, the proposed rate design has considered the impact on low-income customers.

Park recognizes that it may take several rate proceedings to fully transition from the current single uniform rate structure to an increasing block rate structure that provides all customers with the appropriate price signals. The block rate proposal is simple by design because there is no way of knowing in advance the customer demand response to the change in rate structure. After experience is gained with the customer response to conservation rates, Park will be able to improve the accuracy and efficiency of the increasing block rate design. Park views the proposed rate design as the initial step in a long-term process of implementing the appropriate conservation rates.

CFC's Contention that the Tiers Proposed for the Conservation Rate Design are Improperly Set is not Supported by the Evidence Provided.

CFC contends that the proposed rate design for residential customers is faulty because the first tier or block is set at too high a figure. CFC (page 15) states, "Another problem with the proposed rates is that the first tier encompasses water use of 20 ccf/month, the equivalent of 7480 gallons per month. ….In fact, it is more than twice the amount of water needed to satisfy the current, indoor uses of an average family of four, which has not undertaken conservation measures." This statement contains 2 errors. Firstly, the proposed rate for Tier encompasses 10 Ccf/month rather than 20. 20 Ccf will be the allowance for a bimonthly bill. 7,480 gallons is equivalent to 10 ccf/month as opposed to the stated amount of 20 ccf/month. Assuming this correction, CFN is stating that the use of 10 Ccf per month is more than double the average indoor usage for the average family of four in California. That is incorrect. The reference provided by CFC, Waste Not, Want Not: The Potential for Urban Water Conservation in California (Waste Not Want Not, Page 39) states, "This would have the effect of reducing current indoor residential use, on average, from around 60 gallons per person per day (excluding some uses not evaluated here). . .". Using 60 gallons per person per day, the average monthly indoor use for an average family of 4 with some exclusions is 7,300 gallons (60 gallons per day per person multiplied by 4 people multiplied by 30.4 days). This is approximately equal to the 7,480 gallons used by the proposed rate design. Therefore CFC's assertion that the first tier is more than double the average indoor usage was made in error. Contrary to CFC's assertion, the data contained in referenced report supports the selection of 10 Ccf per month as a proxy for indoor water usage.

CFC's Implication that Conservation of 32.5% can be Achieved Relatively Quickly is Misleading.

CFC (page 5) quotes a Pacific Institute Report stating, "The Institute "estimate[s] that cost-effective reductions of at least 32.5% (a savings of 470,000 AF/yr) could be made relatively quickly with improved management practices and available irrigation technology…". Park finds these statements misleading because significant capital investment in an irrigation system is required to take advantage of available irrigation technology. As previously discussed, Park provides water service to disadvantaged communities, and many of its customers will not be able to afford the capital investment in irrigation technology and therefore improved management of irrigation practices is not applicable.

The Proposed Rate Design Provides Customer Incentive to Reduce Outdoor Water Use.

CFC (page 5) states, "It is particularly important to address constraints on the water system posed by outdoor water use: "Outdoor water use rises to a maximum during the summer when California water supplies are most constrained; as a result, residential landscape use plays a large role in driving the need for increases in system capacity and reliability." Park agrees with CFC that a conservation rate design should address peak demands that result from residential landscape use during the summer. The proposed rate design does just that. Because the first tier of usage is set at winter usage levels, the proposed rate design provides a financial incentive for customers to decrease water usage during the summer when supplies are constrained.

CFC Misinterprets the Conservation Rate Design Proposed for non-Residential Customers.

CFC believes that the Settlement does not propose conservation rates for non-residential customers. CFC (page 21) states, "There is no reason to delay the implementation of conservation rates for commercial customers." This statement is in accurate, as the Settlement does propose a conservation rate design for non-residential customer including commercial customers. While it is true, that Park's application (A.06-11-009) did not propose tiered rates for the non-residential customers, the Settlement proposes a conservation rate design for non-residential customers. The settlement retained a single quantity rate, with a reduction in the service charge that results in an increase to the volumetric charge (Settlement, page 4). The proposed rate design is considered conservation oriented as defined by BMP 11.

A One Size Fits all Conservation Rate Design is Inappropriate for all Customers.

CFC misinterprets the rationale provided by Park for not proposing increasing block rate designs for non-residential customers in its application. CFC (page 18) states the following:

> "The reason given for Park Water's failure to propose conservation rates for non-residential customers is: The average business, Industrial or public authority customer does not have the ability to conserve water at the rate blocks that would appropriately encourage conservation for residential customers." (Emphasis added).

This is the reason that Park gave as to why a single tiered rate design could not apply to all customer classes and that, therefore, the tier rates proposed for residential customers could not be used for the other classes. The average monthly consumption for non-residential customer classes is much greater than the residential class and therefore a single increasing block rate structure applicable to all customers is unfeasible. Implementation of a single increasing block rate design to all customer classes would inevitably result in inappropriate price signals and cost of service inequities to the non-residential customer groups. This is due to the fact that the average water usage of residential customers is significantly lower than that of the other customer classes. The average business, industrial or public authority customer does not have the ability to conserve water at the rate blocks that would appropriately encourage conservation for residential customers.

The reason that Park did not propose any other tiered rate designs for the non-residential classes is that those classes are not homogeneous and there was insufficient information to develop the multiple rate designs that would be required for them. As stated in its application, Park's residential customer class is relatively homogeneous both in nature and amount of usage while other classes are not. While the non-residential customer classes share some characteristics, unlike the residential customer class, the non-residential customer classes have a lot more differences than similarities. A liquor store and a laundry mat are examples of business customers with dissimilar operations and water usage patterns. A US postal service office and a school are examples of public authority customers with dissimilar operations and water usage patterns. This usage variation distinguishes business, public authority and industrial customer classes from the residential customer class. Appropriate increasing block rate designs for the non-residential customer classes, which encourage conservation but are not punitive, will probably require multiple rate designs applied to subclasses. Additional data collection and analysis is required before appropriate rate designs for the other classes can be proposed because of the usage variations.

The usage variation in non-residential customer classes is readily seen in the tables contained in Attachment 1 of the Settlement. Consumption varies greatly within the non-residential customer classes. For example, the usage for a business customer can vary from 15 to 50 Ccf for a 5/8 inch meter as compared to the usage of a business customer with a 2 inch meter which can vary from 100 to 400 Ccf per month.

In its application Park stated its intention to evaluate separate increasing block rate design for the non-residential customer classes in its next GRC application. Park was unable to complete the task of defining subclasses prior to filing of its application because the necessary information was unavailable. However, the residential class makes up over 90% of Park's total customers and generates over 70% of Park's total revenues. Park believes that the implementation of an increasing block rate design for the residential class will encourage conservation among the large majority of Park's customers and the conservation-oriented single block rate design will encourage conservation for the non-residential classes while Park can gather data on which to design appropriate increasing block rate designs for those other classes.

II. CONCLUSION

For the reasons set forth above, Park respectfully requests that the Commission adopt Park's positions with respect to the issues discussed in these reply comments and adopt the Settlement.

Dated at Downey, California: July 6, 2007.

Respectfully submitted,

PARK WATER COMPANY

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PROOF OF SERVICE

STATE OF CALIFORNIA)
)
County of Los Angeles)

I am a citizen of the United States and I hereby certify that I have this day served the within **REPLY COMMENTS OF PARK WATER COMPANY,** on all parties shown on the attached Service List. Service was effected by one or more means indicated below:

- Placing the copies in properly addressed sealed envelopes and depositing such envelopes in the United States mail with first-class postage prepaid (Via First Class Mail);
  - To all parties, or
  - To those parties without e-mail addresses or whose e-mails are returned as undeliverable;
- Placing the copies in sealed envelopes and causing such envelopes to be delivered by overnight courier to the offices of the Assigned Commissioner and Administrative Law Judge;
- Transmitting the copies via e-mail to all parties who have provided an e-mail address.

Dated at Downey, California, on July 6, 2007.

/ S / PAMELA M. PRUETT
Pamela Pruett
Administrative Assistant

PARK WATER COMPANY
Proceeding: I0701022
July 6, 2007

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